

HEALTH

0530 California Health and Human Services Agency

Background. The California Health and Human Services Agency (CHHS Agency) administers the state's health, social services, rehabilitative and child support programs. The purview of the CHHS Agency includes: (1) the departments of Aging, Alcohol and Drugs, Child Support Services, Community Services and Development, Developmental Services, Health Services, Mental Health, Rehabilitation, and Social Services; (2) the Office of Health Insurance Portability & Accountability Act; (3) the Office of System Integration; (4) the Office of Statewide Health Planning and Development; (5) the Managed Risk Medical Insurance Board; (6) the Emergency Medical Services Authority; (7) Long Term Care Council; and (8) Health Care Quality Improvement and Cost Containment Commission.

The Office of Health Insurance Portability & Accountability Act (HIPAA) was created in 2001 and has statewide responsibility for implementation of the federal HIPAA. The office was established within the CHHS Agency to direct and monitor this process.

The Office of Systems Integration (OSI) within the CHHS Agency manages five major projects for the Department of Social Services (DSS) and one project for the Employment Development Department (EDD). Funding for OSI is supported entirely by reimbursements from the DSS and EDD budgets. Effective July 1, 2005, the HHSDC Systems Management component was shifted to the Health and Human Services Agency, Office of System Integration.

Summary of Funding. The budget proposes total expenditures of \$229.1 million (\$5 million General Fund). Of this total amount, (1) \$3.1 million and 25 positions are proposed for the Secretary's Office, (2) \$3.7 million and eleven positions are for the Office of HIPAA Implementation, and (3) \$222.3 million and 165 positions are for the Office of System Integration. Through the Budget Act of 2004, the Secretary for the CHHS Agency received 14 new positions and an augmentation of \$1.8 million (General Fund), or an increase of over 100 percent over the Budget Act of 2003. This adjustment is reflected in the current-year base.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Secretary for Health & Human Services	\$3,486	\$3,133	-\$353	-10.1
Office of HIPAA	\$3,600	\$3,680	\$80	2.2
Office of System Integration	\$212,443	\$222,274	\$9,831	4.6
Funding Source				
General Fund	\$4,913	\$4,986	\$73	1.5
Managed Care Fund	\$364	--	-\$364	-
Reimbursements	\$1,809	\$1,827	\$18	0.1
Office of Systems Integration Fund	\$212,443	\$222,274	\$9,831	4.6
Total, Health & Human Services Agency	\$219,529	\$229,087	\$9,558	4.4

Highlights of the Office of Systems Integration within the CHHS Agency

- **Child Welfare Services/Case Management System (CWS/CMS) Go Forward Plan.** CWS/CMS provides database, case management, and reporting functions for the Child Welfare System. The budget provides \$110.4 million (\$55 million General Fund) for maintenance of the existing system and other required activities needed to maintain federal matching funds for this system. These activities, known as the “Go Forward” plan, include a technical architectural alternative analysis, migration of the application hosting to the Department of Technology Services (DTS) from a private vendor location, and other activities to determine if or how CWS/CMS should be changed to meet federal standards. Budget year funding represents a decrease of \$9.4 million (\$4.8 million General Fund), primarily to reflect reduced application hosting costs. The budget also requests the establishment of 1.0 additional position in OSI for CWS/CMS. OSI currently has 66.5 positions for CWS/CMS.
- **Case Management, Information and Payrolling System (CMIPS) II Contract Procurement.** The existing CMIPS provides client case management and provider payrolling functions for the In-Home Supportive Services (IHSS) program. The budget includes \$25.6 million (\$12.8 million General Fund) for contract planning, procurement, and implementation activities. Although the 2005-06 Budget Act included \$13.2 million (\$6.6 million General Fund) in anticipation of a contract award and implementation in 2005-06, the OSI now indicates that the contract is not anticipated to be awarded until November 2006. This results in a current year reduction of \$10 million (\$5 million General Fund).
- **Statewide Automated Welfare System (SAWS) Maintenance and Implementation Activities.** SAWS consists of five automation systems and a project management office that support eligibility determination and caseload tracking functions for Medi-Cal, California Work Opportunity and Responsibility to Kids (CalWORKs), Food Stamps, Foster Care, Refugee Resettlement, County Medical Services, and county General Assistance programs. The budget provides \$228.6 million (\$82.9 million General Fund) for SAWS, a reduction of \$28.5 million (\$9.4 million General Fund) compared to the current year, primarily due to completion of CalWIN conversion activities in 2006-07. The budget year funding would maintain the four fully implemented SAWS systems, complete county conversion activities for CalWIN, begin migration planning activities to move counties from ISAWS to C-IV, and begin development of a LEADER replacement system request for proposal. The budget also proposes to permanently establish 1.0 expiring limited-term OSI position for SAWS.
- **Electronic Benefit Transfer (EBT) System.** The EBT system provides cash and food benefits to CalWORKs and Food Stamp clients via debit card technology and retailer point-of-sale terminals. The budget requests \$50.8 million (\$10.2 million General Fund) for ongoing system maintenance and contract procurement activities.
- **Statewide Fingerprint Imaging System (SFIS).** SFIS records fingerprints and photo images of CalWORKs and Food Stamp applicants to prevent duplicate aid payments. The budget requests \$7.8 million General Fund to continue to maintain SFIS.

4120 Emergency Medical Services Authority

Background. The overall responsibilities and goals of the Emergency Medical Services Authority (EMS Authority) are to: (1) assess statewide needs, effectiveness, and coordination of emergency medical service systems; (2) review and approve local emergency medical service plans; (3) coordinate medical and hospital disaster preparedness and response; (4) establish standards for the education, training and licensing of specified emergency medical care personnel; (5) establish standards for designating and monitoring poison control centers; (6) license paramedics and conduct disciplinary investigations as necessary; (7) develop standards for pediatric first aid and CPR training programs for child care providers; and (8) develop standards for emergency medical dispatcher training for the “911” emergency telephone system.

Summary of Funding. The budget proposes total expenditures of \$26 million (\$12.2 million General Fund) for the EMS Authority. This reflects a net decrease of \$10.5 million (\$10.1 million General Fund) primarily due to (1) the elimination of one-time only funds of \$10 million (General Fund) provided to certain Trauma Care Centers, and (2) an augmentation of \$2.3 million (\$1.6 million General Fund) to provide personal protective equipment for private ambulance providers.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Program Source				
Emergency Medical Services	\$36,525	\$26,041	-\$10,484	-28.7
Funding Source				
General Fund	\$22,393	\$12,245	-\$10,148	-45.3
Federal Funds	\$3,038	\$2,688	-\$350	-11.5
Reimbursements	\$9,506	\$9,300	-\$206	-2.2
Other Funds	\$1,588	\$1,808	\$220	13.8
Total Expenditures	\$36,525	\$26,041	-\$10,484	-28.7

Summary of Governor’s Proposed Reductions and Augmentations

- **Eliminates Supplemental Funding for Trauma Care Centers.** The budget reflects a reduction of the \$10.5 million General Fund appropriation to supplement certain Trauma Care Centers as provided by the Legislature in the Budget Act of 2005. The Governor viewed this legislative augmentation as a one-time only adjustment and therefore deleted it for 2006-07.
- **Personal Protective Equipment for Private Ambulance Personnel.** The budget proposes an increase of \$2.3 million (\$1.6 million General Fund) for distribution to local Emergency Medical Services Agencies for the purpose of purchasing personal protective equipment for 1,500 ambulance units (primarily private ambulance providers).

The EMS Authority states that about 3,585 ambulances are available in California of which 74 percent, or 2,664, are private ambulances providers. They estimate that only 28 percent of

the ambulances in the state have sufficient personal protective equipment (mainly head, body and respiratory protection) to respond to terrorism events and disasters.

The EMS Authority contends that generally, public providers have adequate equipment but that private providers generally do not. The Administration is proposing to solely provide grants for private providers unless small public providers can demonstrate a need for funding to purchase the specified equipment. As a condition of receiving grant funds, the EMS Authority will require providers to participate in California's disaster response system, as well as provide necessary training on the use of the equipment distributed.

- **Changes Proposed for Emergency Medical Services Personnel Preparedness.** The EMSA is seeking considerable changes to the (1) Paramedic Licensing and Enforcement program, (2) Day Care Provider Training Program, and (3) licensure and discipline process for Emergency Medical Technician-I (EMT I) and EMT II personnel. Specifically, the budget proposes an increase of \$1.6 million (\$1.5 million General Fund) to fund 30 new positions (to be phased-in over a three-year period) and to support consultant contracts. Under the Administration's proposal, a General Fund loan of \$1.5 million would be provided up-front and licensing fees would be increased over a three-year period to pay back the loan. Trailer bill legislation regarding the proposed program changes and fee increases is still being developed by the Administration.
- **California Medical Assistance Teams (CalMAT).** An increase of \$1.8 million (Reimbursements) is proposed to implement and administer three medical disaster response teams for California. Specifically the funds would be used to support two new positions at the EMSA Authority and to purchase medical supplies, pharmaceuticals and equipment. The CalMAT's would be used to respond to catastrophic disasters within the state.

4250 California Children and Families Commission

Background. The California Children and Families First Act of 1998 created this commission effective December 1998. The Commission consists of nine members—seven voting members and two ex-officio members. Three of the members are appointed by the Governor, two by the Senate Rules Committee, and two by the Speaker of the Assembly.

The commission is responsible for the implementation of comprehensive and integrated solutions in order to provide information and services promoting, supporting, and improving the early childhood development of children through the age of five. These solutions are provided either directly by the commission or through the efforts of the local county commissions.

Funding is provided through a 50-cent-per-package surtax on cigarettes, as of January 1, 1999, and an equivalent surtax on other tobacco-related products, as of July 1, 1999. These revenues are deposited in the California Children and Families Trust Fund. As required by law, a portion of these revenues are transferred to the Department of Health Services to backfill for specified decreases in Proposition 99 funds (i.e., Cigarette and Tobacco Product Surtax Funds).

Summary of Funding. The budget proposes total expenditures of \$706.6 million (Special Trust funds) for an increase of \$14.4 million over the revised current year.

The California Children and Families Commission funds must be used to supplement, not supplant, existing funds. The funds are distributed across accounts as required by Proposition 10. The funds are continuously appropriated pursuant to Section 30131.3 of the Revenue and Taxation Code and are not subject to an annual appropriation through the Budget Act.

The commission began funding initiatives using the various accounts in January 2000. These projects address recognized needs related to children's health care, child care and development, and family literacy.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Administrative Functions	\$16,599	\$16,889	\$290	1.7
Local Assistance—Counties	\$692,166	\$706,568	\$14,402	2.0
Funding Source				
Counties Children & Families Account	\$459,446	\$472,794	\$13,348	2.9
Mass Media Communications Account	\$50,510	\$50,602	\$92	0.2
Education Account	\$67,894	\$68,973	\$1,079	1.6
Child Care Account	\$36,059	\$36,077	\$18	0.04
Research & Development Account	\$41,736	\$41,752	\$16	0.03
Administration Account	\$16,601	\$16,901	\$300	1.8
Unallocated Account	\$19,922	\$19,932	\$10	0.05
Total Expenditures	\$692,166	\$706,568	\$14,402	2.1

4260 Department of Health Services

Background. The goals of the Department of Health Services (DHS) are to: (1) promote an environment that contributes to human health and well-being; (2) ensure the availability of equal access to comprehensive health services using public and private resources; (3) emphasize prevention-oriented health care programs; (4) promote the development of knowledge concerning the causes and cures of illness; and (5) ensure economic expenditure of public funds to serve those persons with the greatest health care needs. These goals are carried out through three key programmatic areas, including the Medi-Cal Program, Childrens Medical Services, and Public and Environmental Health.

Summary of Funding. The budget proposes expenditures of \$38.4 billion (\$14.4 billion General Fund), or a *net* increase of \$1.1 billion (\$533.5 million General Fund) over the revised 2005-06 budget. Of the total amount, \$37.3 billion (\$14.1 billion General Fund) is for local assistance. This represents an increase of \$1.025 billion (\$553.4 million General Fund), or 2.9 percent, over the revised current year.

The Governor proposes state support expenditures of \$1.1 billion (\$253.8 million General Fund) which represents an increase of \$70.6 million (reduction of \$20 million General Fund) over the revised current year.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Program Source				
Health Information & Strategic Planning	\$23,129	\$33,931	\$10,802	46.7
Environmental Controls	\$412,158	\$444,124	\$31,966	7.8
Public Health Services	\$797,720	\$821,827	\$24,107	3
Medical Care Services	\$34,123,936	\$35,116,450	\$992,514	2.9
Licensing & Certification	\$133,008	\$145,056	\$12,048	9.1
County Health Services	\$84,007	\$67,135	\$-16,872	-20.1
Primary Care & Family Health	\$1,729,644	\$1,770,185	\$40,541	2.3
State Administration & Operations	\$53,499	\$54,372	\$873	1.6
Distributed Administration (adjustment)	-\$51,076	-\$51,890	-\$814	-1.6
Totals, by Program Source	\$37,306,025	\$38,401,190	\$1,095,165	2.9
Funding Source				
General Fund	\$13,851,286	\$14,384,799	\$533,513	3.9
Federal Funds	\$20,263,648	\$20,491,678	\$228,030	1.1
Special Funds & Reimbursements	\$3,191,091	\$3,524,713	\$333,622	10.5
Totals, by Fund	\$37,306,025	\$38,401,190	\$1,095,165	2.9

The Governor's budget proposes state support expenditures of \$1.1 billion (\$253.8 million General Fund) which would fund 6,028 authorized positions, an increase of 322 personnel-years over the revised current-year. This increase of 322 personnel-years (adjusted for salary savings) equates to a total of 533 new positions.

The following chart outlines the increase in state positions, as adjusted for salary savings, by program area. It should also be noted that the DHS obtained a significant increase in staff through the Budget Act of 2005 as shown below.

Department of Health Services Authorized and Proposed Positions (as adjusted)					
DHS Program Areas	2004-05 Authorized Positions	2005-06 Authorized Positions	Increased Positions In Current Year	Total Proposed Positions for 2006-07	Proposed Increased Positions
Health Information & Strategic Planning	143.4	142.6	0.8	159.2	16.6
Environmental Controls	611.3	678.3	67.0	733.9	55.6
Public Health Services	449.2	423.5	-25.7	460.6	37.1
Subtotal: Public & Environmental Health	1,203.9	1,244.4	40.5	1,353.7	109.3
Medi-Cal Services	2,250.9	2,447.8	196.9	2,576.8	129
Licensing & Certification	778.9	878.6	99.7	966.4	87.8
County Health Services	105.1	108.1	3.0	105.2	-2.9
Primary Care & Family	590.3	624.0	33.7	622.2	-1.8
Subtotal: Health Care	3,725.2	4,058.5	333.3	4,270.6	212.1
Administration	387.4	403.7	16.3	404.5	0.8
TOTAL POSITIONS	5,316.5	5,706.6	390.1	6,028.8	322.2**

** The 322.2 personnel-years equates to a total of 533 proposed new positions.

Highlights for the Medi-Cal Program

Summary of Funding and Enrollment. The Governor's budget proposes total expenditures of \$34.7 billion (\$13.7 billion General Fund) which reflects a General Fund increase of \$974.7 million (\$542.3 million General Fund) above the revised current-year budget. The net General Fund increase primarily reflects (1) increases in caseload and utilization for aged, blind and disabled individuals; (2) adjustments to the federal Medicare Part D Drug Program; and (3) increases in federal Medicare premiums.

It should be noted that General Fund support for mental health programs has been transferred from the Department of Health Services budget to the Department of Mental Health's budget. This change results in the 2006-07 Medi-Cal expenditures appearing \$339.9 million less than it otherwise would have been.

California continues to have one of the lowest average cost-per-enrollee rates in the nation at \$5,509 per enrollee, versus a national average of about \$6,895 per enrollee.

Medi-Cal provides health insurance coverage to about 18 percent of Californians. Average monthly caseload is anticipated to increase in 2006-07 by about 126,600 people, or 1.9 percent, for a total of 6.8 million eligibles. Of the total Medi-Cal eligibles about 38.8 percent, or 2.6 million people, are categorically-linked to Medi-Cal through enrollment in public cash grant assistance programs (i.e., SSI/SSP or CalWORKs).

Almost all Medi-Cal eligibles fall into four broad categories of people: (1) aged, blind or disabled; (2) families with children; (3) children only; and (4) pregnant women.

Generally, Medi-Cal eligibility is based upon family relationship, family income level, asset limits, age, citizenship, and California residency status. Other eligibility factors can include medical condition (such as pregnancy or medical emergency), share-of-cost payments (i.e., spending down to eligibility), and related factors that are germane to a particular eligibility category.

Summary of Governor's Reductions and Augmentations for the Medi-Cal Program

- **Five Percent Rate Decrease.** The Governor reduces the rates paid to Medi-Cal providers by five percent effective January 1, 2006 through December 31, 2006 for current year savings of \$50.1 million (\$22.5 million General Fund) and budget year savings of \$90.3 million (\$38.5 million General Fund). The Administration prevailed on litigation which enables them to make this adjustment.

The table below shows the estimated reductions by category of service. It should be noted that services provided under the California Children Services (CCS) Program, the Child Health Disability Prevention (CHDP) Program and the Genetically Handicapped Persons Program (GHPP) are exempt from this reduction, as well as 24-hour facilities including hospitals.

Governor's 5 Percent Rate Reduction for Medi-Cal Fee-For-Service			
Category of Medi-Cal Service	5 Percent Cut 2005-06 (January - June) (Total Funds)	5 Percent Cut 2006-07 (June to December) (Total Funds)	Total Amount (January - December)
Physicians	\$14.6 million	\$32.6 million	\$47.2 million
Other Medical	\$11.9 million	\$22 million	\$33.9 million
Medical Transportation	\$2.0 million	\$3.9 million	\$5.9 million
Other Services	\$1.4 million	\$2.7 million	\$4.1 million
Home Health	\$2.3 million	\$4.9 million	\$7.3 million
Dental	\$15.9 million	\$15.9 million	\$31.8 million
TOTALS	\$48.2 million	\$82 million	\$130.2 million
Funding Source			
General Fund	\$22.4 million	\$38.5 million	\$60.9 million
Federal Funds	\$25.8 million	\$82 million	\$69.3 million

- **Reduction to County Eligibility Processing for the Medi-Cal Program.** Counties are responsible for processing all Medi-Cal Program enrollment applications, including those for children, seniors and the disabled. Generally, federal law requires a governmental entity to conduct this processing. The budget eliminates \$42.4 million (\$21.2 million General Fund) in 2006-07 for County Eligibility Administration which historically has been provided to counties to fully fund the salaries and overhead costs of Medi-Cal Program eligibility workers. With less county workers it will take longer to process Medi-Cal applications, including those applications received through increased outreach activities.

- **Reductions to Adult Day Health Care Program.** A series of proposals are included to reduce and restructure the Adult Day Health Care (ADHC) Program for a total funding reduction of \$19.8 million (\$9.9 million General Fund) in 2006-07, and as much as \$128.4 million (total funds) annually. The table below displays these reductions. In addition, the moratorium on the certification of new centers to provide ADHC services is continued by the Administration for savings of \$12.1 million (\$6 million General Fund).

The DHS states that the federal Centers for Medicare and Medicaid (CMS) are requiring California to make adjustments to the program in order to maintain federal financial participation. However, at this time it is unclear whether the Administration's proposed adjustments will meet the requirements of the federal CMS. In addition, more information is needed in order to ascertain the affect of the proposals on the individuals who need these services to maintain their health and safety. The proposed reductions will require statutory change.

The budget also contains an increase of \$873,000 (\$140,000 General Fund) to support 8 new positions (four at the DHS and four at the Department of Aging) to implement the proposed changes.

Administration's Adult Day Health Care Reductions

Proposed Action	Proposed Implementation Date	2006-07 Total Savings (Total Funds)	Annual Savings (Total Funds)
Unbundle the Rates	March 2007	\$16.9 million	\$82.6 million
Require onsite Treatment Authorizations (TARS)	March 2007	\$740,000	\$11.7 million
Apply more restrictive medial criteria for enrollment	March 2007	\$2.2 million	\$34.1 million
Conduct Post Audit Recoveries	March 2007	Unknown	unknown
Subtotal		\$19.8 million	
Continue Moratorium	ongoing	\$12.1 million	\$12.1 million
TOTALS		\$31.9 million	\$140.5 million

- **Implementation of Medicare Part D Drug Program.** The federal Medicare Part D Drug Program is effective as of January 1, 2006 and is presently being implemented. The budget reflects a series of adjustments across the health and human services budget including the following key items:
 - ✓ Medi-Cal has discontinued full drug coverage for all dual eligibles (Medi-Cal and Medicare enrollees) since they are covered under the Part D Program, with the exception of coverage provided under AB 132, Statutes of 2006.
 - ✓ The budget includes \$206 million (\$103 million General Fund) for selected drugs not covered by the Part D Program, including barbiturates, benzodiazepines and various medical supplies. This is consistent with the Budget Act of 2004.

- ✓ Medi-Cal will no longer receive certain drug rebates due to the Part D Drug Program implementation. Drug rebates were previously used to offset General Fund expenditures by \$544 million.
- ✓ Federal law requires states to contribute part of the savings obtained from pharmaceutical coverage changes for dual eligibles (Medicare and Medi-Cal) back to the federal government (i.e., clawback payments). The budget assumes that \$768.1 million General Fund will be provided to the federal government for this purpose.
- ✓ Medi-Cal's budget reflects a net increase of \$211.8 million (General Fund) due to overall implementation costs associated with the Medicare Part D Drug Program.
- **Simplification of the Medi-Cal Redetermination Form.** The Administration is in the process of changing the Medi-Cal redetermination form to make it easier for Medi-Cal enrollees to complete and maintain their enrollment. An increase of \$42.1 million (\$21.1 million General Fund) is provided to reflect an increased caseload of 27,672 enrollees, or an additional 2 percent per month retention rate, due to these form changes. An increase of \$3.3 million (\$1.7 million General Fund) has also been provided for County Medi-Cal Administration processing for these applications.
- **Increasing Medi-Cal and Healthy Families Program Enrollment for Children via Outreach Activities.** The budget includes several strategies to improve the enrollment of uninsured, eligible children into the Medi-Cal and Healthy Families Program. The following strategies are funded under the Medi-Cal Program for total expenditures of \$27.4 million (\$10.5 million General Fund):
 - ✓ An increase of \$19.7 million (\$8.5 million General Fund) for the DHS to allocate to 20 counties, with the greatest number of uninsured children, to partner with public and private community organizations for outreach, streamlined enrollment and related measures. Trailer bill legislation is also forthcoming on this item.
 - ✓ An increase of \$3.4 million (\$1.4 million General Fund) for a media campaign that would work in conjunction with the county-based outreach proposal referenced above.
 - ✓ An increase of \$3.1 million (federal funds) to reimburse the Healthy Families Program administered by the Managed Risk Medical Insurance Board for enrollment assistance provided by Certified Application Assistants. (See further discussion of this issue under Item 4280 below.)
 - ✓ An increase of \$932,000 (\$466,000 General Fund) for 10 new positions at the DHS to implement and administer the allocations to counties and the media campaign.
 - ✓ An increase of \$250,000 (\$125,000 General Fund) to increase the level of support for toll-free telephone lines from \$1.3 million to \$1.6 million.
- **Implementation of Hospital Financing Waiver and SB 1100 (Perata), Statutes of 2005.** The budget includes an additional \$246 million (federal funds) in 2005-06 and \$570.7 million (federal funds) in 2006-07 to reflect implementation of the Hospital Financing Waiver. Due to implementation of the Waiver, state General Fund savings of at least \$149 million are expected for 2006-07 as well.

However, it should be noted the federal government has not yet approved California's methodology for determining how a "certified public expenditure" (CPE) is calculated. Until this approval is obtained, Public Hospitals, including University of California hospitals, cannot receive supplemental federal fund payments for Disproportionate Share Hospital (DSH) expenditures or Safety Net Care Pool funds. At this time Public Hospitals are only receiving Medi-Cal per diem payments as provided under contract with the California Medical Assistance Commission. Cash-flow for these hospitals is becoming problematic.

The DHS states that approval by the federal government should be forthcoming. However, even after approval is received, significant technical work, including development of detailed cost accounting documents, still needs to be completed by the DHS and Public Hospitals.

In addition, the department is seeking an increase of \$1.5 million (\$748,000 General Fund) to fund 13 new state positions to administer the Hospital Financing Waiver. These positions are in addition to those already provided in SB 1100, Statutes of 2005.

- **Implementation of Managed Care Expansion.** The Budget Act of 2005 provided for the expansion of Medi-Cal Managed Care to 13 additional counties (i.e., geographic expansion of the existing program). The Administration states that the cost in 2006-07 for three counties—El Dorado, Imperial and Placer—to implement Medi-Cal Managed Care is \$4.6 million (General Fund). All of these costs are associated with providing Medi-Cal services and the payment time lag for claiming reimbursement.

In addition, the Department of Health Services is requesting an augmentation of \$1.6 million (\$718,000 General Fund) to hire 17 new positions to proceed with implementation of the geographic expansion. These positions are in addition to those provided through the Budget Act of 2005.

- **Outreach to Increase Enrollment of Seniors and Persons with Disabilities in Medi-Cal Managed Care.** A total of \$2 million is proposed to increase enrollment of seniors and persons with disabilities into Medi-Cal Managed Care on a voluntary basis. First, an increase of \$1.1 million (\$550,000 General Fund) is provided to conduct focused education and outreach activities. Second, an increase of \$916,000 (\$386,000 General Fund) is provided to support 9 new state positions. The DHS states that some of these positions will be used to develop performance measures relating to special need populations. However, it is unclear at this time what specific measures are to be developed or whether statutory change will be required.
- **New Medi-Cal Managed Care Plan for Dual Eligibles (Medicare and Medi-Cal/SSI Only).** The Administration is proposing to develop two new pilot project models regarding Medi-Cal Managed Care. One of the proposed pilot models—"Access Plus Community Choices"—would be implemented in two counties (one County Organized Healthcare county and one Two-Plan Model county). This pilot model would require the mandatory enrollment of seniors and disabled individuals living in the county. Implementing trailer bill language is being drafted by the Administration.

The other proposed pilot model—"Access Plus"—would operate within the existing Geographic Managed Care counties (San Diego and Sacramento) and would involve

voluntary enrollment. Trailer bill language is forthcoming from the Administration on this proposal as well.

An increase of \$1.2 million (\$525,000 General Fund) is requested to hire 11 new positions to design and implement these two pilot project models.

- **New Coordinated Care Management Pilot Project.** An increase of \$473,000 (\$208,000 General Fund) to fund 5 new positions is contained in the budget to develop and implement a new pilot project—"Coordinated Care Management"—to improve health outcomes for certain Medi-Cal Fee-for-Service enrollees. Specifically, Medi-Cal enrollees who are seniors or disabled and have chronic health conditions would be targeted for enrollment in this project. Trailer bill language is forthcoming from the Administration on this proposal.
- **Licensing and Certification Division Staff Increase.** The budget includes an increase of \$17.6 million (total funds) for 141 new state positions to complete required state licensing and federal certification functions, including complaint investigations of nursing homes. These activities would be funded with a newly proposed Licensing and Certification Fund. Trailer bill language to restructure certain licensing and certification requirements, as well as to increase fees paid by healthcare facilities will be forthcoming from the Administration.
- **Additional Staff for Fingerprint Investigation.** An augmentation of \$1.3 million (Licensing and Certification Fund) is proposed to add 14.5 positions to the existing fingerprint investigation unit at the DHS. In addition, trailer bill language is forthcoming that would modify the existing criminal background check process. This proposal is part of the Administration's restructuring of licensing and certification functions.
- **Development of a Long-Term Care Community Options and Assessment Protocol.** The budget contains \$595,000 (\$297,000 General Fund) to fund one new position and to provide contract funds of \$500,000 to develop and test the Community Options & Assessment Protocol (COAP). The purpose of COAP will be to use common assessment information across multiple state departments for programs designed to assist individuals to remain in their homes instead of transitioning to nursing homes.
- **Long-Term Care Rate Adjustments per AB 1629, Statutes of 2004 and Quality Assurance Fee.** The budget includes funding of \$787 million (\$393.5 million General Fund) in 2006-07 to reflect the requirements of the legislation, including various rate adjustments for freestanding nursing facility level B and certain adult subacute facilities.

In addition, the Department of Health Services is seeking an augmentation of \$6.8 million (\$3.4 million General Fund) to hire 41 new positions to fully implement AB 1629, Statutes of 2004.

- **Long-Term Care Rate Adjustment for Other Facilities.** The budget provides an increase of \$172 million (\$86 million General Fund) for various rate increases for freestanding level A nursing homes, Distinct-Part level B nursing homes, and adult sub-acute facilities that provide long-term care, including Intermediate Care Facilities for the Developmentally Disabled (ICF-DD). These facilities are not included under the AB 1629, Statutes of 2004 designation.

- **Legal Settlement Results in General Fund Savings.** As part of a federal settlement, California will be receiving a repayment of \$42.2 million from Serono S.A., the manufacturer of Serostim, an anti-wasting drug mainly used for patients with AIDS. This settlement will be used to offset General Fund support on a one-time basis.
- **Expansion of Nursing Facility Waiver.** The budget contains \$1.1 million (\$355,000 General Fund) to support 14 new positions to expand the existing Nursing Facility Waiver and to implement SB 643, Statutes of 2005. The waiver expansion would add 500 persons to the waiver.
- **State Staff for Self-Directed Waiver and Assisted Living Waiver.** An increase of \$1.4 million (\$563,000 General Fund) is proposed to hire 8 new positions to conduct work associated with these waiver expansions.
- **Increased Staff for Treatment Authorization Processing (TAR).** The budget augments by \$713,000 (\$285,000 General Fund) to fund 6 new positions to create a new “Quality Assurance and Program Integrity” unit to collect, manage and monitor Medi-Cal utilization review and to expand the current “e-TAR” and auto-adjudication processes.
- **State Staff for Aged Drug Rebates.** The budget proposes to extend 11 positions for one-year in order to resolve the aged drug rebate backlog. An increase of \$988,000 (\$494,000 General Fund) is provided for this purpose.
- **State Staff to Audit County Administration Cost Claims.** An increase of \$506,000 (\$253,000 General Fund) is requested to hire 5 new positions to conduct oversight and data analyses of county administration expenditures related to the Medi-Cal Program.

Highlights for Primary Care & Family Health, Public Health & Environmental Health and County Health Services

Summary of Funding. The Governor proposes total expenditures of \$3.7 billion (\$645.9 million General Fund) for 2006-07. This represents an increase of \$120.5 million, or 3.4 percent, above revised 2005-06 General Fund expenditures. There are several public health-related initiatives being proposed. These are discussed below.

Summary of Governor’s Reductions and Augmentations for Public Health

- **AIDS Drug Assistance Program (ADAP).** Total expenditures of \$296.4 million (\$107.7 million General Fund, \$100.9 million federal funds, and \$87.8 million in drug rebates) are proposed which reflects an increase of \$28.1 million (\$16.5 million General Fund) over the revised current-year. The proposed increase is based on actual ADAP expenditures through June 2005 and reflects ongoing cost trends for the program.

The principle cost factors for ADAP are steadily increasing drug prices and an increasing client caseload. Individuals enrolled in the ADAP often continue in the program for long periods since HIV/AIDS is a chronic illness, and other public and private healthcare are limiting prescription drug coverage. It is estimated that ADAP will serve over 28,000 clients in 2006-07.

- **Pandemic Influenza Initiative.** The budget proposes a total increase of \$34.3 million (General Fund) for preparedness strategies related to a pandemic influenza outbreak. No

federal funds for this purpose are included in the budget at this time. Specifically, the augmentation includes the following items:

- ✓ An increase of \$17.9 million (General Fund) related to local health department preparedness. This includes \$16 million for allocation to the local health departments and \$1.9 million for state support, including 5 new state positions.
- ✓ An increase of \$14.3 million (General Fund) for a public education and information campaign, including an emergency response hotline that will provide general information on public health emergency preparedness with specific information on pandemic influenza. The funding would also support 5 new state positions.
- ✓ An increase of \$673,000 (General Fund) is requested to fund 5 new state positions to strengthen the DHS' pandemic influenza planning efforts and to conduct epidemiologic investigations of influenza and respiratory outbreaks.
- ✓ An increase of \$1.5 million (General Fund) is proposed for managing antivirals and vaccines for pandemic influenza. Specifically, \$1.3 million would be used for local assistance and \$203,000 would be used for state operations.
- **Healthcare and Community Infection Control Program.** The budget proposes an increase of almost \$1.4 million (General Fund) to develop and maintain a program for the surveillance, laboratory testing, prevention and control of healthcare-associated and community-acquired infections. A total of 10 new state positions are requested for this purpose.
- **Expansion of Local and Statewide Communicable Disease Surveillance Infrastructure.** An increase of \$1.3 million (General Fund) and 4 new state positions is proposed to expand and maintain state and local capacity to conduct communicable disease surveillance.
- **Public Health Preparedness for Chemical and Radiological Disasters and Terrorist Attacks.** The budget proposes an augmentation of almost \$4.2 million (General Fund) and 15 new state positions to assist local agencies in planning, training, responding, and recovering from natural and intentional disasters that could result in chemical and radiological contamination of food, water, and the environment. No federal funds for this purpose are included in the budget.
- **Infectious Disease Laboratory Infrastructure—Surge Capacity for Bioterrorism and Emerging Diseases.** The budget provides an increase of \$4.2 million (General Fund) to strengthen the state's laboratory infrastructure. Of this amount, \$2.5 million would be provided for local assistance and \$1.7 million would be used for state support, including 13 new state positions.
- **Workforce Training on Capacity for Outbreak Response.** An increase of \$350,000 (General Fund) is provided to train existing frontline public health field investigation personnel to more effectively respond to any infectious disease event, including bioterrorism and pandemic influenza.
- **Prostate Cancer.** The budget includes \$3.5 million (General Fund), on a one-time basis, for the treatment of Prostate Cancer (through the Improving Access, Counseling and Treatment

for Californians with Prostate Cancer—IMPACT) pursuant to Chapter 442 (Ortiz), Statutes of 2005.

- **Battered Women Shelter Program—Underserved Services.** The budget contains an increase of \$350,000 (General Fund) to continue full funding of the \$1.1 million (total funds) provided in the Budget Act of 2005 to assist shelters to serve communities that traditionally do not seek shelter services. The budget proposes to use General Fund backfill to replace funds previously obtained through a legal settlement (i.e., the Nine West Settlement Agreement) which has now been fully expended.
- **Implementation of the California Safe Cosmetics Act-- SB 484, Statutes of 2005 (Migden).** The budget provides \$495,000 (General Fund) and 4 new positions to implement this act regarding the composition and safety of cosmetics sold in California.
- **Implementation of AB 121, Statutes of 2005 (Vargas)—Lead in Candy.** An increase of \$1 million (General Fund) is provided to support 8 new positions to initiate the required activities of this legislation regarding the regulation of lead content in candy.
- **Continues Deferral of State Support for County Medical Services Program.** The Governor proposes to suspend for another year the \$20.2 million (General Fund) appropriation for the County Medical Services Program (CMSP). This \$20.2 million has been suspended for the past several years since the CMSP has had reserve funds available.

4270 California Medical Assistance Commission

Background. The California Medical Assistance Commission (CMAC) was established in 1983 to negotiate contracts for specific services under the Medi-Cal Program on behalf of the Department of Health Services. State law and regulations govern the Commission's activities. The Commission is composed of seven voting members appointed to four-year terms.

Major Commission activities include the following:

- Negotiating contracts for Medi-Cal fee-for-service hospital inpatient services statewide;
- Negotiating contracts with hospitals for supplemental payments under special programs available to contract hospitals, such as hospitals with a disproportionate share of Medi-Cal patients; and
- Developing and negotiating per capita, at-risk managed care contracts for health care services to Medi-Cal enrollees with County Organized Health Care Systems and participating Geographic Managed Care Plans.

Summary of Funding. The budget proposes total expenditures of \$2.8 million (total funds) to support 24 positions. This reflects a total net increase of \$145,000 (increase of \$320,000 General Fund and decrease of \$165,000 in other funds) and one position over the revised current year. This new position is to be used to assist the Department of Health Services in negotiating rates for Medi-Cal Managed Care Plans.

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
CA Medical Assistance Commission	\$2,682	\$2,827	\$145	5.4
Funding Source				
General Fund	\$1,118	\$1,428	\$320	27.7
Emergency Services & Supplemental Payments Fund	108	0		-100.0
Reimbursements	\$1,456	\$1,399	-\$57	-3.9
Total Expenditures	\$2,682	\$2,827	\$145	5.4

4280 Managed Risk Medical Insurance Board

Background. The Managed Risk Medical Insurance Board (MRMIB) administers programs, which provide health care coverage through private health plans to certain groups without health insurance. The MRMIB administers the (1) Healthy Families Program; (2) Access for Infants and Mothers (AIM); and (3) Major Risk Medical Insurance Program.

Governor's Budget. The budget proposes total expenditures of \$1.2 billion (\$379.7 million General Fund, \$732 million Federal Trust Fund and \$105.6 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. This funding level represents a net increase of \$126.9 million (\$49.7 million General Fund) over the revised current-year. The net increase is due to changes in the Healthy Families Program as discussed below.

Summary of Expenditures (dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Program Source				
Major Risk Medical Insurance Program (including state support)	\$45,973	\$42,003	-\$3,970	-8.6
Access for Infants & Mother (including state support)	\$118,237	\$115,409	-\$2,828	-2.4
Healthy Families Program (including state support)	\$915,717	\$1,055,638	\$139,921	15.3
County Health Initiative Program	\$10,436	\$4,204	-\$6,232	59.7
Totals Expenditures	\$1,090,363	\$1,217,254	\$126,891	11.6
Fund Sources				
General Fund	\$329,972	\$379,662	\$49,690	15.0
Federal Funds	\$643,628	\$731,959	\$88,331	13.7
Other Funds	\$116,763	\$105,633	-\$11,130	9.5
Total Funds	\$1,090,363	\$1,217,254	\$126,891	11.6

Highlights for the Healthy Families Program

Background. The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to children (up to age 19) in families with incomes up to 250 percent of the federal poverty level. Families pay a monthly premium and copayments as applicable. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

Summary of Funding and Enrollment. A total of \$1.047 billion (\$377.2 million General Fund, \$659.6 million Federal Title XXI Funds, \$2.2 million Proposition 99 Funds, and \$8.1 million in reimbursements) is proposed for the HFP, excluding state administration. This reflects an increase of \$138.7 million (\$50.5 million General Fund), or 15.3 percent over the revised current-year.

The budget assumes a total enrollment of 933,111 children as of June 30, 2007, an increase of 105,813 children over the revised current year enrollment level or a growth rate of 12.8 percent.

This projected enrollment level reflects a higher growth trend primarily attributable to (1) proposed modifications to the enrollment process; (2) increased funding for outreach; and (3) a proposed incentive plan for the Certified Application Assistance Program.

Total enrollment is summarized by population segments below:

- | | |
|---|------------------|
| • Children in families up to 200 percent of poverty: | 643,746 children |
| • Children in families between 201 to 250 percent of poverty: | 211,631 children |
| • Children in families who are legal immigrants: | 17,689 children |
| • Access for Infants and Mothers (AIM)-Linked Infants | 14,149 children |
| • New children due to restoration of Certified Application Assistance | 33,496 children |
| • New children due to modifications in the enrollment process | 12,400 children |

Summary of Governor's Reductions and Augmentations

- **Expands the Use of Certified Application Assistance Fees to Increase HFP Enrollment.** Historically, the HFP utilized a comprehensive outreach and enrollment process, which included the use of Certified Application Assistants (CAA), public relations, and a media campaign. Under the CAA approach, a \$50 fee would be paid for each person successfully enrolled in the HFP or Medi-Cal, and a \$25 fee would be paid for each annual eligibility re-determination enrollment. The CAA approach ended in 2001 due to fiscal constraints.

The Budget Act of 2005 restored funding for CAA's and the budget builds upon this restoration. Specifically, the budget provides the following adjustments for the CCA outreach approach:

- Provides \$11.8 million (total funds) to continue the CAA fees which represents an increase of \$5.4 million over the revised current-year.

- Proposes \$2.5 million (\$2 million General Fund) to create a new incentive program for CAA's. To be eligible to receive an incentive payment, the CAA would need to increase the number of their assisted applications by 20 percent over their prior quarter applications. The incentive payment would be 40 percent of the total payments made in the qualifying quarter.
- Provides \$26.7 million (total funds) to support anticipated new HFP caseload which is attributed to the CAA efforts. This additional funding would provide enrollment to 33,496 new children.

It should be noted that the budget also includes \$3.4 million (\$1.4 million General Fund) within the Medi-Cal Program, under the Department of Health Services, for a media campaign to encourage enrollment of all eligible children into a state health program (i.e., Medi-Cal or the HFP).

- **Streamline HFP Enrollment Process and Anticipated Enrollment.** Trailer bill legislation is proposed that would modify the HFP enrollment process to discontinue requiring applicants to (1) submit a premium at the time of HFP application, and (2) make a plan selection at the time of initial HFP application. Instead, HFP applicants would pay their premium upon actual enrollment into the program, and would have up to three months to choose a health care provider. Under this enrollment process if no immediate health plan choice is made, the default would be to place the child into the community-based plan with the option to change to another plan within three months.

This statutory change, coupled with expanding the availability of a web-based application process (called Health-e-app), is intended to increase HFP enrollment by an additional 12,400 children.

The budget proposes an increase of \$9.5 million (total funds) to support the increased caseload of 12,400 children, and the associated costs for children who are anticipated to enroll earlier in the program due to the processing changes. In addition, the MRMIB is seeking an increase of \$91,000 (total funds) to support a new position for this purpose.

- **Modify HFP and Access for Infants and Mothers (AIM) Statute to Eliminate Potential for Duplicative Health Insurance Coverage.** Trailer bill legislation is proposed to amend the HFP and AIM statutes to eliminate duplicative HFP enrollment of AIM-linked infants who already have no-cost Medi-Cal eligibility or private insurance. The budget includes one-time funding of \$300,000 (\$195,000 General Fund) for information technology changes and to develop a new AIM Program application and handbook. The trailer bill legislation assumes a July 1, 2007 effective date.
- **Request for More State Staff.** The budget proposes an augmentation of \$983,000 (total funds) to support 10 new positions. It should be noted that the MRMIB was provided a total of 14 new positions in 2005-06, including three for HFP outreach functions.
- **Increased Oversight of Mental Health Services for HFP Enrollees.** An increase of \$432,000 (\$151,000 Mental Health Services Fund) is provided to support two new positions and to provide \$266,000 in contract funds to increase oversight in the delivery of mental health services for HFP enrollees with serious emotional disturbances.

- **Continues County Health Initiative Matching (CHIM) Fund Program.** The budget proposes a total of \$3.8 million (\$1.3 million County Health Initiative Matching Fund and \$2.4 million federal funds) for the County Health Initiative Matching Fund Program as established through AB 495, Statutes of 2001. This funding level supports a total of 2,967 children in the pilot counties of Alameda, Santa Clara, San Mateo and San Francisco.

Through this program, counties, local initiatives and County Organized Health Care Systems can submit proposals to receive federal matching funds to provide health insurance coverage to children with family incomes between 250 percent and 300 percent of poverty. These matching funds are unexpended federal Title XXI State Children's Health Insurance Program (S-CHIP) funds which the state presently does not need to support the existing HFP.

- **Continues Funding for Rural Demonstration Projects.** The budget continues funding for the Rural Demonstration Projects at \$5.8 million (\$2 million Proposition 99 Funds) which is the same amount as provided in the current year.

Highlights for the Access for Infants and Mothers Program

Summary of Funding and Enrollment. The Access for Infants and Mothers (AIM) Program provides health insurance coverage to women during pregnancy and up to 60 days postpartum, and covers their infants up to two years of age. Eligibility is limited to families with incomes from 200 to 300 percent of the poverty level. Subscribers pay premiums equal to 2 percent of the family's annual income plus \$100 for the infant's second year of coverage.

As of July 1, 2004, infants born to AIM women are automatically enrolled in the Healthy Families Program (HFP) at birth. Infants born during 2004-05 to AIM mothers who enrolled in AIM prior to July 1, 2005 will remain in AIM through two years of age. Therefore, infant enrollment is declining and shifting to the HFP. This is because infants will age out of the AIM Program at two years old while no new infants will be enrolled after July 1, 2004, unless the AIM mother was enrolled prior to that date. Therefore, the AIM Program is transitioning to focusing only on pregnant women and 60-day post partum health care coverage.

A total of \$114.5 million (\$50.5 million Perinatal Insurance Fund and \$63.9 million federal funds) is proposed for AIM in 2006-07. A total of 12,137 women and 8,304 second-year infants are expected to utilize AIM. This funding level reflects a reduction of \$2.9 million (total funds) over the revised current-year. This reduction is due to the transition of the program as referenced.

Highlights for the Major Risk Medical Insurance Program

Summary of Funding and Enrollment. The Major Risk Medical Insurance Program (MRMIP) provides health care coverage to medically high-risk individuals as well as individuals who have been refused coverage through the health insurance market. The budget proposes total expenditures of \$42 million (Major Risk Medical Insurance Fund) to serve over 7,000 individuals. The budget proposes no substantial changes to the program.

4300 Department of Developmental Services

Background. The Department of Developmental Services (DDS) administers services in the community through 21 Regional Centers (RC) and in state Developmental Centers (DC) for persons with developmental disabilities as defined by the provisions of the Lanterman Developmental Disabilities Services Act. To be eligible for services, the disability must begin before the consumer's 18th birthday, be expected to continue indefinitely, present a significant disability and be attributable to certain medical conditions, such as mental retardation, autism, and cerebral palsy.

The purpose of the department is to: (1) ensure that individuals receive needed services; (2) ensure the optimal health, safety, and well-being of individuals served in the developmental disabilities system; (3) ensure that services provided by vendors, Regional Centers and the Developmental Centers are of high quality; (4) ensure the availability of a comprehensive array of appropriate services and supports to meet the needs of consumers and their families; (5) reduce the incidence and severity of developmental disabilities through the provision of appropriate prevention and early intervention service; and (6) ensure the services and supports are cost-effective for the state.

Summary of Funding. The budget proposes total expenditures of \$3.8 billion (\$2.4 billion General Fund), for a *net* increase of \$208.7 million (\$155.6 million General Fund) over the revised current year. The proposed augmentation represents an increase of 5.7 percent over the revised current year.

Of the total amount, \$3.1 billion (\$2 billion General Fund) is for services provided in the community, \$706.6 million (\$383.4 million General Fund) is for support of the state Developmental Centers, and \$37.3 million (\$24.7 million General Fund) is for state headquarters administration.

The budget reflects a net increase of \$19.6 million (\$14.9 million General Fund) over the current year for the planned July 2007 closure of Agnews Developmental Center, located in San Jose. This funding includes adjustments to investment in housing options, community-based services and supports, and related resource development. An outline of the Agnews closure proposal is contained under the Issues Section for the Developmental Centers, below.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Program Source				
Community Services Program	\$2,882,730	\$3,098,476	\$215,746	7.5
Developmental Centers	\$713,295	\$706,611	-\$6,684	-0.9
State Administration	\$37,659	\$37,324	-\$335	-0.9
Total, Program Source	\$3,633,684	\$3,842,411	\$208,727	5.7
Funding Source				
General Fund	\$2,250,684	\$2,406,249	\$155,565	6.9
Federal Funds	\$56,377	\$54,943	-\$1,434	-2.5
Program Development Fund	\$2,000	\$2,003	\$3	0.2
Lottery Education Fund	\$489	\$489	0	0
Developmental Disabilities Services	\$232	\$40	-\$192	-82.8
Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management	\$1,323,902	\$1,378,687	\$54,785	4.1
Total Expenditures	\$3,633,684	\$3,842,411	\$208,727	5.7

Highlights for Community-Based Services Provided Through Regional Centers

Background. The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. The RCs are responsible for providing a series of services, including case management, intake and assessment, community resource development, and individual program planning assistance for consumers. RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities.

Summary of Funding and Consumer Population. The budget proposes expenditures of \$3.1 billion (\$2 billion General Fund) for community-based services, provided via the RCs, to serve a total of 216,565,000 consumers living in the community. This funding level includes \$485.9 million for RC operations and \$2.6 billion for the purchase of services, including funds for the Early Start Program and habilitation services.

The budget reflects a *net* overall increase of \$215.7 million (\$159.8 million General Fund), or 7.5 percent, over the revised current year. The General Fund adjustment represents an increase of 8.7 percent. Most of the increase is attributable to (1) an increase in the utilization of services by consumers, (2) a three percent rate increase for certain programs, (3) an increase of 8,345 consumers for 2006-07, and (4) an increase for RC operations.

The DDS notes certain demographics and key factors are appearing in the population, including the following:

- Significant increase in the diagnosed cases of autism, the causes of which are not fully understood.

- Over 57 percent of the RC population is under 22 years of age. It is likely that medical professionals are identifying more developmentally disabled individuals at an earlier age.
- Over 70 percent of consumers now reside in the home of a parent or guardian, as compared to only 64 percent in 1994.
- Decreases continued in the proportion of consumers living in community care settings (i.e., out-of-home placement) and State Developmental Centers. Specifically, about 13 percent of consumers now live in a community care setting compared to 18 percent in 1994.
- Hispanics remain the fastest growing segment of the population increasing from about 24 percent in 1994 to about 32 percent in 2005. Over this same period, the white segment of the population decreased from 49 percent to about 42 percent.
- Improved medical care and technology has increased life expectancies for individuals with developmental disabilities.

Summary of Governor's Key Reductions and Augmentations for Regional Centers

- **Regional Center Population and Service Utilization Update.** Of the \$215.7 million (total funds) proposed net increase in the Regional Center budget, \$115.8 million is needed to support population increases and service utilization needs. A total of 216,565 consumers are estimated for 2006-07, an increase of 8,365 consumers over the current-year.
- **Administration Intends to Negotiate New Regional Center Contract Language to Reduce the Purchase of Services for Consumers.** A decrease of \$14.3 million (\$10.6 million General Fund) is proposed in the Purchase of Services (POS) area based upon the Administration's intent to negotiate new contract language with the Regional Centers.

It is assumed that RCs would apply these new requirements at the time of an individual's program plan (IPP) development or scheduled review. Since an individual's IPP is to be reviewed no less than once every three years, the budget assumes a phased-in implementation (i.e., one-third of the population each year). As noted in the table below, full implementation would be achieved in 2008-09.

Summary of Governor's Reductions from RC Contract Language

Fiscal Year and Cumulative Effect	Total Proposed POS Reductions Due to New Requirements	Proposed Savings in General Fund
2006-07		
One-third of population is reviewed.	\$14.3 million	\$10.6 million
2007-08		
Continue 2006-07 savings and review next one-third of population.	\$28.6 million	\$21.1 million
2008-09		
Continue 2006-07 and 2007-08 savings and review next one-third of population.	\$42.9 million	\$31.7 million

It is unclear at this time whether the DDS has existing legal authority to administratively enact all of their proposed changes through contract language, or if statutory changes are needed for some portion of them. It should be noted that the Legislature has rejected similar Administrative proposals for the past four years.

The DDS states that their proposed contract changes would address the following:

- Requiring the use of the least costly vendor who will meet the consumer's needs;
- Clarifying parents' responsibility for purchasing services;
- Specifying the use of group services deemed to be less costly, as opposed to individual services, if the consumer's needs can otherwise be met;
- Establishing a maximum expenditure level for Supported Living services for an individual consumer; and
- Requiring Regional Centers to annually inform consumers and families of the services purchased on their behalf.

The budget includes a corresponding increase of \$7.6 million General Fund to expand Regional Centers' Operations related to controlling the POS expenditures. Specifically, \$6 million of this augmentation would be used to hire 65 positions and the remaining amount would be used for related administrative purposes, including office rent and mediation services for dispute resolution.

- **Three Percent Rate Adjustment for Certain Providers.** A total of \$67.8 million (\$46.1 million General Fund) is proposed to provide a 3 percent rate increase for certain programs, including Community Care Facilities, Day Programs, habilitation services programs, respite agencies, voucher respite programs, supported-living, transportation and look-alike Day Programs. These programs have been subject to provider rate freezes for several years.

The table below displays each of the categories of service that would receive the three percent rate increase. Further, the DDS is proposing trailer bill language which would limit any rate increase in 2006-07 to only three percent, including those services under direct contract with RCs, unless it is necessary to protect a consumers' health or safety.

Purchase of Services Provider Category	Total Cost of 3 Percent Rate Increase (2006-07)	General Fund Amount (2006-07)
Community Care Facilities	\$23.8 million	\$14.1 million
Day Programs	\$23.6 million	\$14.3 million
Habilitation Services	\$3.7 million	\$2.9 million
Transportation	\$5.4 million	\$4.2 million
Supported Living	\$7 million	\$4.2 million
Look-Alike Day Programs	\$4.8 million	\$3.5 million
In-Home Respite	\$3.6 million	\$2.9 million
Total	\$67.8 million	\$46.1 million

- **Agnews Developmental Center Closure Continuation.** As required by statute, the Administration has provided the Legislature with an update on their plan for the closure of Agnews Developmental Center. In the plan, the Administration states that achieving the closure date of June 30, 2007 is contingent upon the Administration's ability to implement three key components—increased community housing, new service models, and the use of state employees in the community. Many of these components, such as those contained in AB 2100 and SB 962 are in transition since many implementation steps are in process. Therefore, adjustments to the closure plan are expected at the Governor's May Revision.

The budget reflects adjustments that are consistent with the updated plan (dated January 10, 2006). It is assumed that an average of 126 consumers will be residing at Agnews as of July 1, 2006 and that all of these consumers will be transitioned to either the community or to another Developmental Center (DC) by June 30, 2007. For purposes of developing the budget, the Administration assumes that 50 of the remaining 126 consumers transfer to another DC.

The budget proposes a net increase of \$23.5 million (total funds) over the revised current year for the closure of Agnews. This consists of a decrease of \$6 million (total funds) in the Developmental Centers to reflect the decline in the resident population, and an increase of \$29.5 million (total funds) for the Regional Centers. The adjustment in the Regional Centers is to provide for the placement and transition of Agnews residents into the community and the use of state employees from Agnews to provide services in the community.

The net increase of \$23.5 million (\$15.9 million General Fund) for 2006-07 includes the following key adjustments:

- Reduces the Agnews Developmental Center baseline budget by \$12.6 million (total funds) for total expenditures of \$79.8 million in 2006-07.
- Provides \$9.2 million (total funds) to fund 100 state employees from Agnews to work with consumers in community-settings. This reflects an increase of \$6.9 million (total funds) over the revised current year.
- Provides a total of \$42.1 million (total funds) for the RCs, including expenditures for the Purchase of Services and Operations, for community placement purposes, including program start-up, and consumer assessment and placement. This reflects an increase of \$17.9 million (total funds) over the revised current year.
- Provides a total of \$6.6 million (total funds) for other DC staff expenditures related to staff transition and training, consumer escort and assistance, and other related closure activities.
- Reduces by \$13.2 million (total funds) to account for placements into the community. Most of these savings are attributable to reduced state staffing costs due to the closure.
- Reduces by \$2.2 million (total funds) to capture the difference in costs of consumers living at Agnews and being transferred to another Developmental Center. This reflects the fact that Agnew's residential costs are higher than any other Developmental Center.

- Provides an increase of \$365,000 for the preparation of Sonoma Developmental Center to receive up to 50 consumers from Agnews.
- Provides an increase of \$525,000 for costs associated with relocating up to 50 consumers to other DCs (i.e., not Sonoma).

As required by statute, the DDS will be providing the Legislature with another Agnews plan update on May 15, 2006. This plan should correspond to any Governor's May Revision adjustments.

- **Autistic Spectrum Disorder Initiative.** An increase of \$2.6 million (General Fund) is proposed to fund resources in the Regional Centers to better meet the needs of consumers with Autistic Spectrum Disorders (ASD). Specifically, these funds are to be used to: (1) hire an ASD program coordinator and a clinical specialist within each Regional Center; (2) develop best practice guidelines for treatment and intervention; (3) establish state and regional ASD resource centers; and (4) provide training to clinicians and other professionals to implement best practices. An increase of \$87,000 (General Fund) is also proposed to fund a position at the Department of Developmental Services.
- **Delays in Department of Health Services Certification of Intermediate Care Facilities.** Due to delays by the Department of Health Services (DHS) in licensing and certifying Intermediate Care Facilities for the Developmentally Disabled (ICF-DD), the DDS must utilize General Fund resources to fully support these services which are otherwise funded using 50 percent federal funds from the Medi-Cal Program. As such, an increase of \$4 million (General Fund) is proposed to fund the gap in timing until the DHS conducts the necessary surveys in order for the state to then draw federal Medicaid funds.
- **California Developmental Disabilities Information System (CADDIS).** The CADDIS is an integrated case management and fiscal accounting system that is being implemented by the RCs at the direction of the DDS. This new system is needed in order to enhance the receipt of federal funds, as well as to obtain more accurate and necessary consumer data regarding needs and services.

The target date for implementation had been June 2004. However, this date has been pushed back by the Administration on several occasions, costing the state over \$30 million in lost federal fund support and General Fund savings. The Administration notes that this \$20 million (General Fund) to-date information project is currently under review and its completion status is unknown. It is contended that any necessary adjustments will be provided at the Governor's May Revision.

- **Self Directed Services Model.** As established in statute, the Self Directed Services Model enables consumers to be in control of their services and to manage a finite amount of funds allocated to an individual budget in order to pay for services specified in the consumer's Individual Program Plan (IPP). Under the model, enrollment of up to 9,380 consumers will be phased-in over five years. The budget assumes enrollment of participants beginning November 1, 2006 and that 800 consumers will be enrolled by the end of the first year. It is assumed that savings of \$205,000 (total funds) will be obtained in 2006-07 through implementation of this model.

Highlights for the State Developmental Centers

Background. The DDS operates five Developmental Centers (DCs)—Agnews, Fairview, Lanterman, Porterville and Sonoma. Porterville is unique in that it provides forensic services in a secure setting. In addition, the department leases Sierra Vista, a 54-bed facility located in Yuba City, and Canyon Springs, a 63-bed facility located in Cathedral City. Both facilities provide services to individuals with severe behavioral challenges.

Summary of Funding and Enrollment. The revised current-year budget reflects total expenditures of \$713.3 million (\$387 million General Fund) for the DCs or a decrease of \$5 million (General Fund) over the Budget Act of 2005. Most of this decrease is due to a reduction in resident population and related costs.

The budget proposes expenditures of \$706.6 million (\$383.7 million General Fund), excluding state support, to serve 2,797 residents who reside in the state DC system. This reflects a caseload decrease of 229 residents or 7.6 percent, and a net reduction of \$6.7 million (\$3.6 million General Fund) as compared to the revised current year.

The net reduction of \$6.7 million is primarily the result of a reduction in state staff due to the continuing decline in resident population and the pending closure of Agnews Developmental Center and an increase to establish an intensive behavioral treatment residence pilot project at Porterville Developmental Center.

According to recent DDS data, the average cost per person residing at a DC is about \$228,000 annually. This figure varies across the DCs due to differences associated with resident medical and behavioral needs, overall resident population size, staffing requirements, fixed facility costs and related factors. In addition, due to the level of fixed costs at the DCs and the need to maintain minimum staffing levels, the cost per resident will continue to increase as the total resident population decreases. The table below displays the continued transition from the DC model of providing services to a community-based model for providing services.

Developmental Center Residents (<i>Observed</i>)			
Fiscal Year	DC Residents	Yearly Difference in Residents	Percent Decrease
2000-01	3,723		
2001-02	3,628	-95	-2.6%
2002-03	3,537	-91	-2.5%
2003-04	3,296	-241	-6.8%
2004-05	3,096	-200	-6.1%
2005-06 (Est)	3,026	-70	-2.3%
(Proposed) 2006-07	2,671	-355	-11.7%

Summary of Governor's Key Reductions and Augmentations for Developmental Centers

- **Developmental Center Resident Population.** A reduction of \$17.3 million (\$9.6 million General Fund) and 242 state positions is proposed to reflect a projected decline of 229

residents in the Developmental Center system (from 3,016 residents in 2005-06 to 2,797 residents in 2006-07).

Agnews Developmental Center Closure Continuation. See discussion under Regional Centers.

- **Proposed Changes to the Office of Protective Services.** The DDS proposes to restructure the Office of Protective Services which provides law enforcement services in the DCs and community facilities, including police, security, fire protection and investigations that protect consumers, employees and the public from harm. The DDS states that their proposed changes are intended to address concerns raised by the Department of Justice, as well as needs they have internally identified.

The budget proposes (1) an increase of \$660,000 (\$380,000 General Fund) to support 81 new positions at the DCs; (2) an increase of \$752,000 (\$452,000 General Fund) to support 6 new positions at DDS headquarters to develop and implement policies, training and management functions; and (3) trailer bill legislation to authorize two positions at DDS headquarters as peace officers.

- **Porterville Developmental Center Intensive Behavioral Treatment Residence.** An increase of \$1.2 million (General Fund) is proposed to fund 14 new positions to establish an intensive behavioral treatment residence at Porterville. This residence would be used to secure up to 30 consumers deemed to be dangerous from the rest of the secured treatment program population.
- **Worker's Compensation Savings.** A reduction of \$4.9 million (\$2.8 million General Fund) is reflected due to significant decreases in worker's compensation claims.

4440 Department of Mental Health

Background. The Department of Mental Health (DMH) administers state and federal statutes pertaining to mental health treatment programs. The department directly administers the operation of five State Hospitals—Atascadero, Coalinga, Metropolitan, Napa and Patton, and acute psychiatric programs at the California Medical Facility in Vacaville and the Salinas Valley State Prison. The department provides hospital services to civilly committed patients under contract with County Mental Health Plans (County MHPs) while judicially committed patients are treated solely using state funds.

Though the department sets overall policy for the delivery of mental health services, counties (i.e., County Mental Health Plans) have the primary funding and programmatic responsibility for the majority of local mental health programs as prescribed by State-Local Realignment statutes enacted in 1991 and 1992.

Specifically counties are responsible for: (1) all mental health treatment services provided to low-income, uninsured individuals with severe mental illness, within the resources made available; (2) implementation of the Mental Health Services Act of 2004; (3) the Medi-Cal Mental Health Managed Care Program; (4) the Early Periodic Screening Diagnosis and Testing

(EPSDT) Program for adolescents; and (5) necessary mental health treatment services for individuals enrolled in other programs, including special education, CalWORKs, and Healthy Families.

Governor's Budget. The budget proposes expenditures of \$3.4 billion (\$1.6 billion General Fund) for mental health services, an increase of \$316.4 million General Fund and 475.8 positions from the revised current-year budget. This General Fund increase is the net result of significant adjustments in the State Hospital budget, the transfer of General Fund support from the Department of Health Services to the Department of Mental Health for the Early and Periodic Screening, Diagnosis and Treatment Program, and the removal of funds used to support AB 3632 special education students who need mental health services.

In addition to the above expenditures, the DMH is also proposing capital outlay expenditures of \$42.6 million (\$41.6 million Public Building Construction Fund and \$947,000 General Fund).

Further, it is estimated that almost \$1.2 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. Counties use these revenues to provide necessary mental health care services to Medi-Cal recipients, as well as indigent individuals. The total amount reflects an increase of \$23.6 million (County Realignment Funds), or about two percent over the anticipated current-year level.

Summary of Expenditures				
(dollars in thousands)	2005-06	2006-07	\$ Change	% Change
Program Source				
Community Services Program	\$2,576,579	\$2,450,152	-\$126,427	-4.9
Long Term Care Services	\$920,084	\$993,799	\$73,715	8.0
State Mandated Local Programs	\$120,000	\$0	-\$120,000	-100.0
Total, Program Source	\$3,616,663	\$3,443,951	\$172,712	-4.8
Funding Source				
General Fund	\$1,272,519	\$1,588,959	\$316,440	25.0
General Fund, Proposition 98	\$13,400	\$13,400	0	0
Mental Health Services Fund (Prop 63)	\$665,663	\$663,913	-\$1,750	-0.2
Federal Funds	\$63,141	\$63,199	\$58	-0.09
Reimbursements	\$1,600,694	\$1,112,776	-\$487,918	-30.5
Traumatic Brain Injury Fund	\$1,150	\$1,207	\$57	5.0
CA State Lottery Education Fund	\$96	\$96	0	0
Licensing & Certification Fund	--	\$401	\$401	100
Total Department	\$3,616,663	\$3,443,951	-\$172,712	-4.8

Highlights for Community-Based Mental Health Services

Summary of Funding for Community-Based Mental Health Services. The budget proposes expenditures of \$2.4 billion (total funds) for community-based local assistance, including the Mental Health Services Act funding, Medi-Cal Mental Health Managed Care, Early Periodic Screening Diagnosis and Treatment (EPSDT) Program, applicable state support, the Conditional Release Program and related community-based programs.

This reflects a *net* decrease of \$126.4 million (total funds) compared to the revised current-year. This net decrease is primarily due to (1) a net decrease of \$100.6 million in the EPSDT Program as discussed below, (2) elimination of AB 3632 special education mental health funding from the DMH budget, and (3) technical adjustments to the Mental Health Services Act funding.

County Realignment Revenues. It is estimated that almost \$1.2 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. The total amount reflects an increase of \$23.6 million (County Realignment Funds), or about two percent over the anticipated current-year level.

Realignment revenues deposited in the Mental Health Subaccount, as established by formula outlined in statute, are distributed to counties until each county receives funds equal to the previous year's total. Any realignment revenues above that amount are placed into a growth account. The first claim on the distribution of growth funds are caseload-driven social services programs. Any remaining growth (i.e., "general" growth) in revenues are then distributed according to a formula in statute.

Summary of Governor's Reductions and Augmentations for Community Mental Health

- **Mental Health Services Act (Proposition 63).** In November 2004, voters approved this proposition provides a dedicated funding source for public mental health services from the personal income tax revenues of individuals whose adjusted gross income exceeds \$1 million annually.

The total resources available in the Mental Health Services Account are \$920.1 million for 2005-06 and \$942.7 million for 2006-07. Of this amount, the budget proposes appropriations for local assistance of \$648.8 million for 2005-06 and \$655.5 million for 2006-07. A report from the DMH regarding the current implementation of the Act will be forthcoming shortly. The Mental Health Services Account is a special fund which is continuously appropriated and therefore is not contingent upon an annual Budget Act appropriation.

- **Mental Health Services to Special Education Pupils (AB 3632).** The budget continues to provide \$100 million in special education funding within the Department of Education for mental health services to special education pupils as required by the federal Individuals with Disabilities Education Act (IDEA). In addition, the budget includes \$50 million (General Fund) as a set-aside in the Commission on State Mandates budget for categorical program funds for mental health services provided to these students that are beyond those required under the IDEA. Discussions with constituency groups regarding how this proposed new categorical program will be constructed need to occur.
- **Early and Periodic Screening and Treatment (EPSDT) Program.** The budget proposes a series of adjustments resulting in total expenditures of \$714.4 million (\$363.5 million General Fund). Specifically, the key adjustments are as follows:
 - Transfers the General Fund portion of the base program from the Department of Health Services to the DMH. This action will align expenditures within one department;
 - Eliminates one-time only funding provided in 2005-06 for the final cost settlement amount of \$139.4 million (total funds) provided for 2002-03;
 - Increases by \$38.8 million (total funds) due to more participants and service utilization; and
 - Increases by \$19.1 million (\$8.4 million General Fund) to correct for audit adjustments and recoupments.
- **Mental Health Managed Care Program.** A total of \$453.8 million (\$231.5 million General Fund) is proposed for 2006-07 which reflects an increase of \$8.6 million (\$4.3 million General Fund) over the current year. Most of this increase is attributable to additional caseload. It should be noted that the Governor did not provide a medical cost-of-living-adjustment as permitted in statute. The last time this adjustment was provided was in the Budget Act of 2000.
- **Licensing and Certification Changes.** As part of the Health and Human Services Agency initiative, the DMH is requesting an increase of \$420,000 to support five new positions to expand their licensing and certification functions related to mental health facilities. To support these functions, the Governor is proposing trailer bill legislation to begin collecting

fees from Psychiatric Health Facilities and Mental Health Rehabilitation Centers. Additional trailer bill language is being proposed to (1) require a probationary period for new licensees, (2) charge increased fees for follow-up licensing visits related to facility corrective action plans, and (3) modify statute to incorporate concerns regarding criminal background checks and other law enforcement issues.

Highlights for the State Hospitals

Summary of Funding for the State Hospitals. Total expenditures of \$958.4 million (\$876.4 million General Fund) and 9,714 positions are proposed to operate the five State Hospitals that serve a total population of 5,830 patients.

Over 91 percent of the patients are admitted under a penal code-related commitment, such as Mentally Disordered Offender, Not Guilty by Reason of Insanity, Incompetent to Stand Trial, and Sexually Violent Predator. All penal code-related patients are funded exclusively with General Fund support.

Summary of Governor's Reductions and Augmentations for the State Hospitals

- **State Hospitals and the Federal Civil Rights of Institutionalized Persons Act (CRIPA).** Due to significant concerns expressed by the federal government with the operation of the State Hospitals, substantial changes are being proposed by the Administration. The budget proposes an increase of \$43.5 million (\$37.8 million General Fund) and 432 additional positions to address the requirements of CRIPA and to implement a recovery-oriented treatment system.

Under the proposed recovery-oriented treatment system, State Hospitals would focus on the functional skills desired and necessary to live successfully after discharge, provide treatment, rehabilitation and supports to develop these skills and address the patient's psychiatric and psychological concerns.

- **Salinas Valley Psychiatric Program Expansion of Level IV Licensed Beds.** An increase of \$7 million (General Fund) is requested to fund 66 positions to support the expansion of 36 Level IV beds within the Salinas Valley Psychiatric Program in Soledad. This increase is consistent with the plan submitted to the federal court by the Department of Corrections and Rehabilitation regarding the Coleman lawsuit. This would bring the total number of Level IV beds at Salinas to 100. The additional 36 beds are to be operational by May 2006. A current-year deficiency for this activation was approved by the Joint Legislative Budget Committee in November 2005.